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FM AMEMBASSY CARACAS  
TO RUEHC/SECSTATE WASHDC 9325  
INFO RUEHWH/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS  
RHEHNSC/NSC WASHDC  
RUCPDOG/DEPT OF COMMERCE  
RUEATRS/DEPT OF TREASURY  
RUMIAAA/HQ USSOUTHCOM MIAMI FL

UNCLAS SECTION 01 OF 03 CARACAS 001449

SIPDIS

SENSITIVE  
SIPDIS

TREASURY FOR KLINGENSMITH, NGRANT, AND MMALLOY  
COMMERCE FOR 4431/MAC/WH/MCAMERON  
NSC FOR JCARDENAS  
HQ SOUTHCOM ALSO FOR POLAD

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [VE](#)

SUBJECT: POLITICS AND TAXES

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SUMMARY  
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¶1. (SBU) The BRV's tax authority, SENIAT is taking the lead role in going after many of Chavez' political and economic opponents while at the same time taking positive steps to cut down on tax evasion and improve the government's tax base. The SENIAT Superintendent, Jose Vielma Mora has become more politically active in recent months, and SENIAT often acts as the government's storm troopers targeting specific sectors to provide legitimacy to Chavez' claims of negligence or intransigence. The government's worsening fiscal situation driven by stagnating or decreasing oil revenues and increasing costs has made SENIAT's role more essential. Recent results paint a rosy picture of government tax receipts, but belie underlying causes for concern.

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AUDITS OF CONVENIENCE  
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¶2. (SBU) During the second week of January 2007 Chavez announced that the BRV would nationalize the Avila Magica cable car system in Caracas that takes visitors to the top of the Avila mountain. The cable car system was run by a private Venezuelan consortium and was in the sixth year of its thirty year concession. The consortium had restored the previously defunct system and invested large sums in its maintenance. On May 2, the creation of a commission to inspect and control the cable car concession was announced in the BRV's Official Gazette. On July 12 the National Assembly passed a law transferring the cable car systems in Merida and Caracas to the BRV's tourism company. Concurrent with the announcement, SENIAT announced that Avila Magica was delinquent in its taxes, an announcement that was used by BRV officials to defend that expropriation.

¶3. (SBU) On February 14, Chavez threatened to nationalize the country's supermarkets and food distributors for contributing to the shortages and inflation. SENIAT closed the supermarket chains Unicasa and Central Madeirense on April 13 for 48 hours for accounting irregularities. SENIAT and consumer "protection" agency INDECU routinely close individual stores for selling items above regulated prices.

¶4. (SBU) RCTV officials have described a variety of BRV harassment against the station, including almost daily visits

from SENIAT tax inspectors looking for irregularities in their books. RCTV has been the subject of numerous fines by SENIAT, INDECU, and other BRV agencies and most recently, SENIAT charged RCTV a fine of Bs. 1.7 billion for back taxes on July 3 (adding insult to injury over a month after it was closed by the BRV, and less than a week after it had announced plans to return to Venezuelan homes via DirecTV and cable).

15. (SBU) On April 2, 2007 Chavez threatened to nationalize the nation's health care sector (Venezuela currently has a hybrid public/private system), noting that "if the private clinics, for example, continue speculating, increasing prices, we will have to regulate them...if the private clinics don't comply with the regulations...well we will have to nationalize them." The cost of health care is one of the fastest growing components of the inflation index, which BRV officials attribute to speculation and price gouging. Sector contacts explain the increase in prices as a natural result of a decreasing supply of doctors lost to brain drain and materials unavailable due to currency control restrictions coupled with increased demand as more Venezuelans can afford to move from the public to private system.

16. (SBU) On April 16 SENIAT deployed 8,000 tax inspectors to audit all of the private clinics in the country and announced a new 1-800 phone number for citizens to denounce excessive medical costs. On April 22 Vielma Mora announced that they had fined 179 private clinics and closed an additional 123 for evading taxes. Since April, Chavez, Vielma Mora, the Ministry of Health, and other state actors have continued to denounce the private health care system, and as recently as July 17 SENIAT announced another sector-wide audit.

17. (SBU) The BRV's slow takeover and nationalization of the  
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petroleum industry during the past two years has been accompanied by SENIAT's tax inspectors. During the past year, post has tracked the following fines and back taxes claimed by SENIAT on the international oil companies (IOCs) operating in the Faja belt: USD 200 million combined from the faja belt companies in July 2007, Chevron USD 43.13 million on May 15, Petrozuata USD 465 million on May 11, 2007, Exxon Mobil USD 3.8 million on May 4, 2007, Cerro Negro closed for 48 hours on March 8, 2007, Petrozuata USD 98.1 million on December 14, 2007, Sincor USD 880,000 on December 7, 2006, Texaco Orinoco Resources USD 4 million on November 14, 2007, Phillips Petroleum Co. USD 7.2 million on November 14, 2007, Chevron USD 19.4 million on September 21, 2006, British Petroleum USD 37.2 million on September 21, 2006.

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A SOCIALIST TAX, BUT NOT A TAX ON SOCIALISTS  
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18. (SBU) SENIAT is currently drafting a new "socialist" tax code, which is expected to be released in August. Planned revisions to the current tax code include an increase on sin and luxury goods, including cigarettes and alcohol, a change in the calculation of income tax, and the creation of a capital tax, which would tax a percentage of individuals' net worth exceeding USD 465,000 (not including their principal residence). This capital tax would supposedly tax total net worth, including assets held abroad. How SENIAT intends to enforce this concept remains difficult to foresee. Econ section contacts already admit to moving assets into children's and family member's names to reduce the amount of property they "own."

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A SOCIALIST BUSINESSMAN?  
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19. (SBU) Vielma Mora participated in the May 9 inauguration of the National Confederation of Socialist Businessmen (CESV)

in Caracas. The event was covered by the major daily papers, most of which included a photograph of the group with the tax authority superintendent front and center. The group, destined to compete with the country's Chamber of Commerce FEDECAMARAS is small and fairly inactive, though could potentially be seen by the BRV as a replacement to the "oligarchic coupsters" at FEDECAMARAS. (COMMENT: With the tax authority on board (literally as a member of its board of directors), the confederation also benefits from its appearance as a protection racket from BRV intervention. END COMMENT.)

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SHOW ME THE MONEY  
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¶10. (SBU) Roughly half of the BRV's funding comes from oil revenues and half from tax revenue. SENIAT has succeeded admirably in recent years in cutting down on tax evasion (a competitive sport in Venezuela) and in increasing the government's take from 2.3 percent of GDP in 1999 to 12.4 percent of GDP in 2006. SENIAT also routinely exceeds its quotas (an effect both of lowballing estimates and profiting (in nominal terms) from inflation and economic growth, which is raising incomes, consumption, and the taxes associated with these activities). Revenues grew 44 percent in the first half of 2007 versus the same period in 2006 and SENIAT has already met 60 percent of its 2007 goal, even as spending and revenue growth tend to accelerate during the second half of the year.

¶11. (SBU) Recently, however, the government has become more dependent on oil income to fund itself. A recent Citibank report accurately notes that oil tax revenues for the first half of 2007 grew to 19 percent of total tax returns, from 12 percent in 2006. At the same time, income from the value added tax (IVA) is dropping due to the BRV decision to lower the rate in an attempt to fight inflation from 14 percent to 11 percent in March and 9 percent in July. Should oil prices or production fall and/or economic growth falter, SENIAT may be hard pressed to make up the difference.

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COMMENT

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¶12. (SBU) Vielma Mora, a retired Navy captain and participant in the 1992 coup, clearly knows where his bread is buttered. A two-story billboard at the entrance to Maiquetia airport's cargo terminal features Chavez and Vielma Mora promoting SENIAT's new customs house. Vielma Mora can frequently be seen at Chavez events, such as his weekly "Alo Presidente" television program. As SENIAT's activities become more politicized, it risks undoing much of the praise it has earned locally and abroad for combating evasion and improving Venezuela's tax base. It may also call into question the disposition of foreign institutions to work with SENIAT in transnational matters such as money laundering and IPR protection. Virtually any financial transaction today in Venezuela requires the purchaser to give the seller his/her national identity number, name, address, and phone number for submission to the tax authority. While the value of this data is questionable (and the BRV's ability to store and mine it even more questionable), contacts happily admit to submitting the number 1-2-3-4-5-6-7-8-9 when asked for their identification.

FRENCH